

Trade

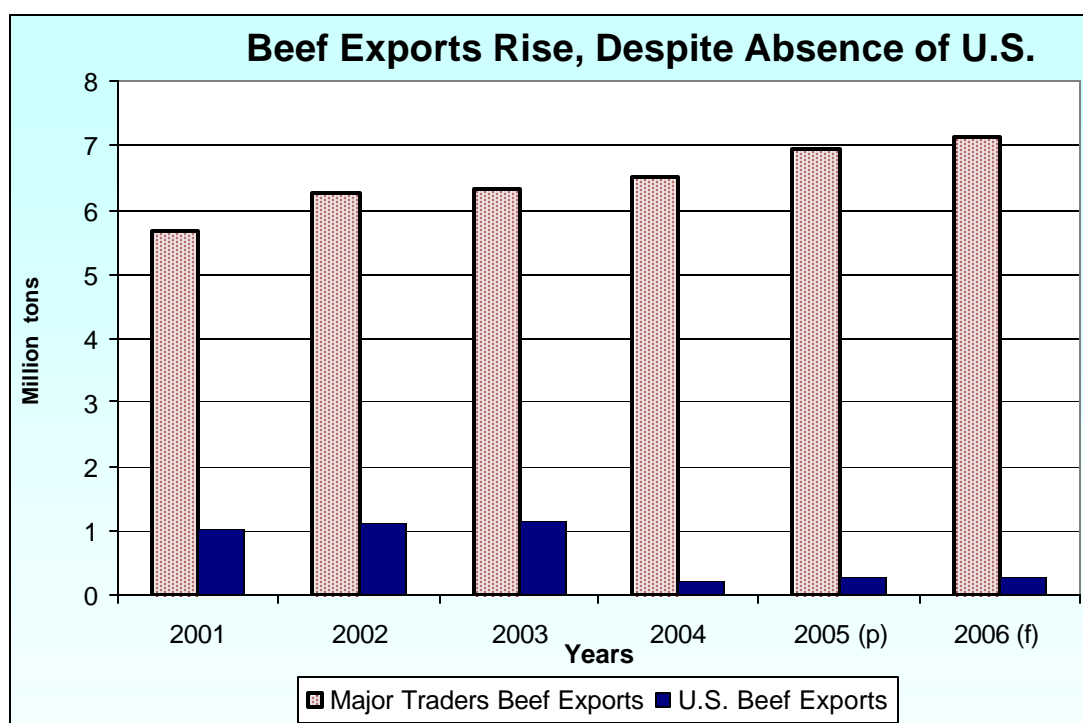
Disease Impacting Trade Flows

Disease outbreaks and their resulting trade restrictions have impacted traditional trading relationships. While this generated negative consequences for certain suppliers, it also created new market opportunities for rising producers. Brazil and Argentina only accounted for 16 percent of beef trade among major traders in 2001, but are forecast to account for 35 percent of that beef trade in 2006.

The absence of Canada and the United States from the world beef market has created opportunities for other suppliers. Australia and New Zealand have increased their market share in Asian markets such as Japan and Korea. However, other exporters such as India and Mexico have also gained.

Despite import bans in most of its major beef export markets, Canada's beef exports are projected to achieve record levels in 2005 and 2006 due to increased slaughter and strong demand in the U.S. beef market.

After AI-related import bans on Thailand and China limited poultry meat sales, Brazil assumed the position of Japan's leading supplier of broiler meat. Japanese import restrictions on beef from Canada and the United States as well as AI-related import restrictions on poultry and poultry products from various Asian countries have bolstered pork imports. The United States and other suppliers such as Canada and China have benefited from Japanese consumers' increased pork purchases.



Source: Production, Supply and Distribution Database, FAS

Beef

Overview

Beef imports for selected countries are forecast to rise nearly 2 percent to just over 5.2 million tons, a new historic high. Many markets are forecast to increase imports during 2006 including Japan (3 percent to 740,000 tons), Russia (7 percent to 730,000 tons), and the European Union (2 percent to 625,000 tons). U.S. beef imports will decline slightly (1 percent) to 1.7 million tons.

In addition to Argentina, China and India are anticipated to achieve significant export growth in 2006 at rates of 6 percent, 20 percent and 9 percent respectively. The international beef market is increasingly seeing the gains by exporters who are using favorable exchange rates, disease outbreaks and the ability to supply low-value beef to growing import demand markets. In 2004, Argentina exports greater quantities of beef than the European Union and is expected to ship 720,000 tons in 2006.

Brazil and FMD in Mato Grosso do Sul

The October 2005 outbreak of FMD in Brazil in Mato Grosso do Sul will constrain growth in the Brazilian beef sectors. Brazil is expected to shift beef slaughter to FMD-free states to meet export demand in 2006. As a result, Brazil's exports for 2006 are forecast at 1.8 million tons, the same volume projected for 2005. Despite no growth in exports due to FMD, Brazil will easily retain its position as the world's leading beef exporter.

Brazil recognizes the need to not just increase quantity but also quality of its beef products especially in specialty and niche markets. While Brazil is the world leader in beef exports by quantity, Australia is the

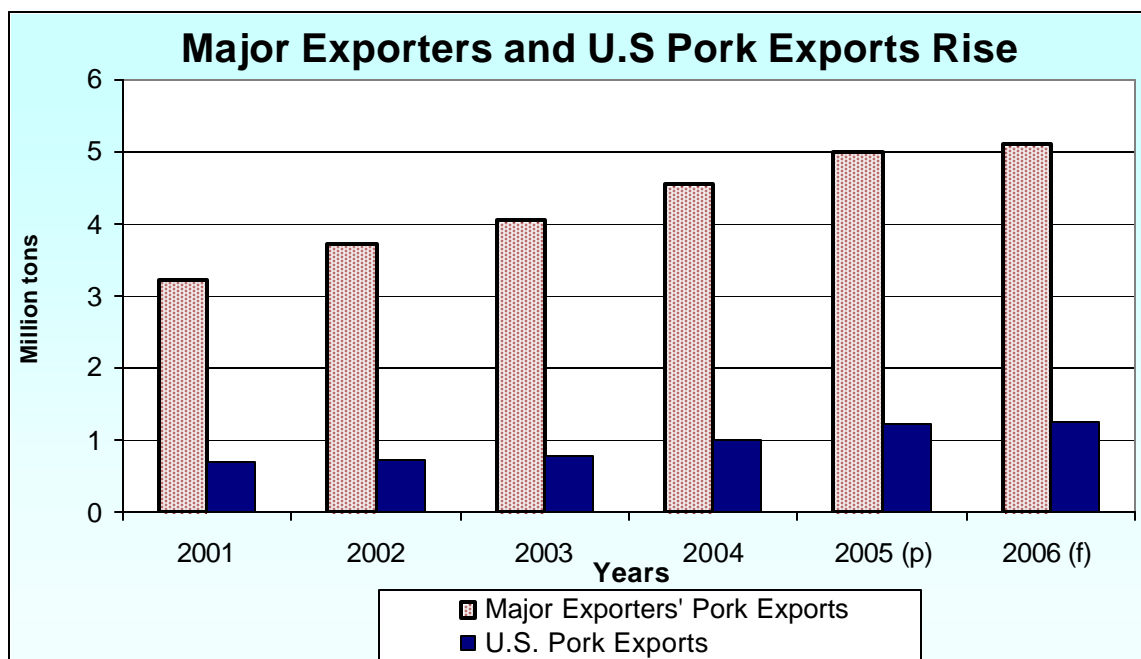
world's leader in beef exports by value as Australia sells beef in some premium markets. Only with Brazil achieving FMD-free status without vaccination will it be possible for exporters to access higher-value markets such as the United States.

Australia and New Zealand Attempt to Meet Demand

Australian beef production will essentially be stable in 2006 and New Zealand will increase production by 6 percent to 725,000 tons as larger numbers of cattle are expected to be slaughtered at heavier weights. Australia's export forecast projects a less than 1 percent growth in exports, whereas New Zealand is forecast to experience 7 percent growth in exports. Exports will account for 85 and 67 percent of New Zealand and Australian beef production respectively in 2006.

New Zealand beef is grass-fed. The Australian cattle industry has increased feedlot capacity to try to meet the Japanese preference for grain-fed beef. Australian feedlot capacity has now surpassed one million head and record levels of cattle on feed are projected in 2006.

Despite increasing beef supplies, Australia and New Zealand are only able to fill part of Japan's beef deficit in 2005 and 2006 due to their general inability to provide specific cuts (i.e. suitable for beef bowl or barbeque) and the quality of meat that has traditionally been supplied by the United States and Canada. Australia's practice of full-set based trade (boneless) with Japan may become a constraint for Japanese importers due to the development of a surplus in 2005 for some less popular cuts such as round. Total Japanese beef imports are forecast to increase nearly 3 percent to 740,000 tons in 2006.



Source: Production, Supply and Distribution Database, FAS

Pork

Overview

Pork exports continue to benefit from beef and poultry meat supply disruptions due to AI and BSE. Increases in pork production are substituting for reduced other animal protein demand in many countries.

The United States continues to benefit from strong demand and is expected to account for 25 percent of pork exports by major traders in 2006, up from 22 percent in 2001. U.S. pork exports have benefited from favorable exchange rates and the substitution of pork for beef in Asia. U.S. pork exports could reach a high of just over 1.25 million tons in 2006.

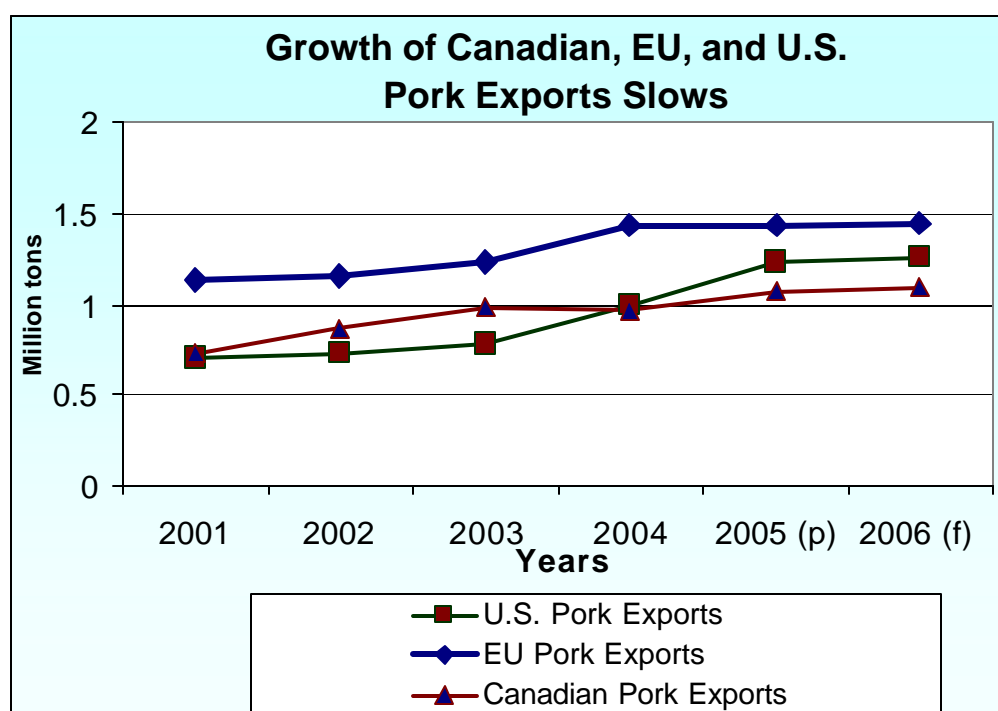
Between 2001 and 2006 increases in pork demand are expected to benefit Brazil, Canada and the European Union which have seen exports increase by 115 percent (to 725,000 tons), 51 percent (to 1.1 million

tons), 28 percent (to nearly 1.5 million tons) respectively. In 2006, for the second year in a row, Canadian pork exports are forecast to exceed 1 million tons.

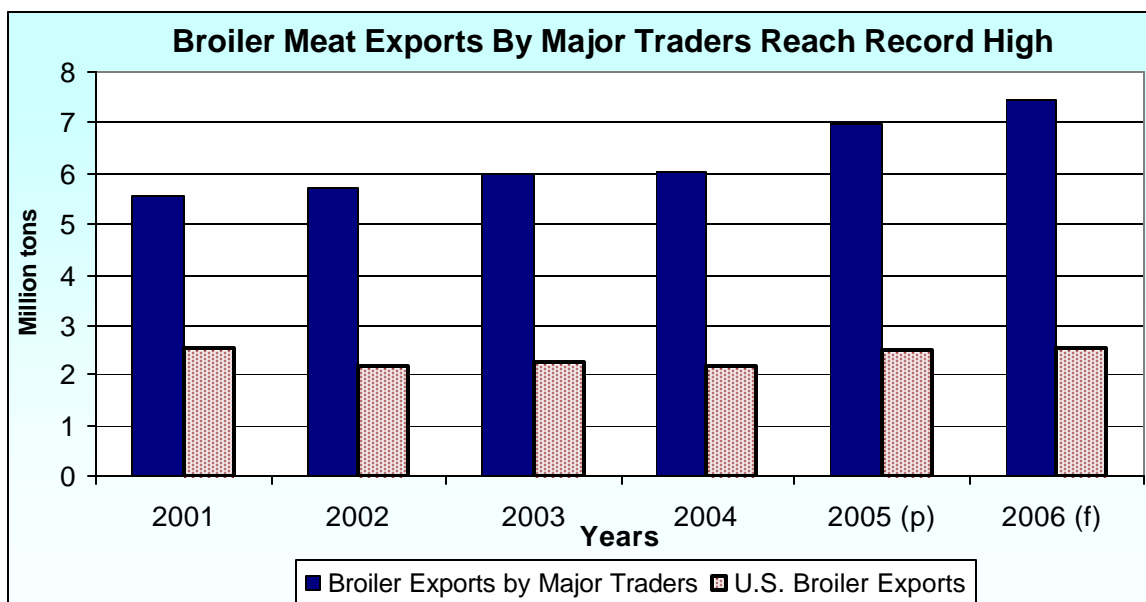
Brazil: With a favorable climate, a strong domestic feed supply and inexpensive resources, Brazil is well positioned to retain its status the world's third largest pork producer, though far behind leading countries.

Brazil is extremely dependent on Russia for export sales. From January to September 2005, Russia accounted for approximately 65 percent of Brazilian pork exports. Brazilian exports to other non-traditional markets are increasing through negotiations to resolve SPS issues and aggressive market promotion. The FMD outbreak in Mato Grosso do Sul is not expected to impact Brazilian pork exports as it is not a primary pork production or exporting region.

European Union: EU pork production is expected to marginally increase in 2006 while exports rise slightly (1 percent) in 2006 to nearly 1.5 million tons, as Polish exports to Russia are expected to resume after gaining Russian export approval. The European Union easily retains its position as the world's leading pork exporter and is forecast to account for 28 percent of pork exports by major traders and 25 percent of the increase in pork exports in 2006.



Source: *Production, Supply and Distribution Database, FAS*



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Poultry

Overview

The 2006 forecast marks the first year in which broiler exports by major traders is expected to achieve over 7.4 million tons, surpassing beef exports. The 2006 export increase of nearly 7 percent is the result of increased trade by a number of countries including Argentina, Brazil, China, Thailand and the United States.

United States: While the United States is expected to have a market share of just under 34 percent of the broiler meat exports by major traders in 2006, it is eroding. In 2001, the United States accounted for 45 percent of broiler meat trade among major traders. In 2006, U.S. broiler exports are expected to increase a modest 2 percent to just over 2.5 million tons.

Thailand: While Thai broiler exports have not fully rebounded to pre-AI levels, exports in 2006 are expected to be one-third above 2005 levels, reaching 400,000 tons. Due to

trade bans on fresh product, most Thai exporters are adjusting production by investing in processing facilities. Cooked chicken products are normally made-to-order meat products that are processed or prepared by heat (such as grilling, steaming, boiling, etc.).

Thailand's success has been attributed to its market value, in terms of quality and price, being superior to that of competitors such as China and Brazil. In Thailand's traditional markets such as Japan and the European Union, the processed products are achieving success. Further, these processed products have found some new markets in Africa and the Middle East.

Brazil: Brazilian broiler exports are forecast to increase a healthy 7 percent in 2006 to a new high of over 3 million tons. It is expected that in 2006 Brazil will be the world's leading broiler exporter by quantity for the third consecutive year.

The appreciation of the Brazilian Real and higher production costs may affect profit

margins and price competitiveness in 2006. However, export expansion will be supported by market promotions and sanitary agreements in new markets.

Unlike pork, Brazilian poultry exports are extremely diversified and not dependent on any particular market. Healthy increases in Brazilian broiler exports have also been across the board and not in any one particular market. While Brazilian poultry exports to Japan in the first nine months of 2005 nearly doubled from 2003, this growth is a function of Thailand's inability to ship fresh broiler meat to Japan. Brazilian sales in the Gulf region (Saudi Arabia, Kuwait and the United Arab Emirates) have also continued to grow and at a rate faster than the expansion of its sales to Europe.